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SUBJECT: INFLATION WATCH: FOOD PRICES UP IN SHANGHAI

REF: A. BEIJING 5578

[1](#)B. SHANGHAI 56

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[1](#)1. (SBU) Summary: Shanghai's consumer price index increased 2.7 percent in July as food prices here joined prices nationwide in rising (Ref A). According to Standard Chartered's Stephen Green, food-price inflation was starting to "hurt" low-income earners such as migrants and pensioners. A non-scientific survey conducted by the Consulate confirmed these findings. The Shanghai municipal government has responded by raising the minimum wage 12 percent as well as increasing pensions. But CLSA's Andy Rothman cautioned against reading too much into the long-term significance of food-price inflation on China's urban dwellers saying that there has been a great deal of "over-hyping" this story in the press. End Summary.

Inflation in Shanghai

[1](#)2. (U) According to figures released by the Shanghai Statistics Bureau (SSB), in August, Shanghai's July consumer price index (CPI) increased by 2.7 percent. Shanghai's CPI is made up of eight basic categories. Of these, five (food, rent, tobacco and alcohol products, clothing, and white goods and home maintenance costs) increased 9.3 percent, 3.7 percent, 0.2 percent, 1.4 percent and 2.8 percent, respectively. The remaining three factors, medical and health products, transportation and telecommunication, and entertainment and education dropped 1.2 percent, 3.2 percent and 2.9 percent respectively.

[1](#)3. (U) The SSB report noted that pork prices in July rose 11.4 percent from June, and 53.5 percent higher in July 2007 than they were in July 2006. The SSB attributed this increase to tight local pork supply, having to purchase large amounts of

pork from geographically more distant regions and the resulting high death rate of the pigs during transportation caused by high temperatures.

¶4. (U) According to the same SSB report, the prices of beef, poultry and lamb increased 3.7 percent, 2.8 percent and 1.2 percent, respectively, from June 2007 to July 2007. Vegetable prices increased 9.2 percent from June to July and were 20.7 percent higher in July 2007 than in July 2006. The report said these price rises were due to "bad weather in July."

¶5. (U) Cooking oil prices increased 36 percent compared to July 2006. Egg prices had increased 32.5 percent in the past year, but had actually dropped 0.7 percent from June 2007 prices. Fruit prices had been dropping since March 2007 and dropped 12.4 percent from June 2007 prices as more locally- and regionally-produced fruit became available.

Analysts' View: Prices Up -- But So Is Hype

¶6. (SBU) Standard Chartered Senior Economist Stephen Green told Econoff on August 22 that inflation in China is a global concern and the recent increases in food prices here have received "lots of attention around the world." Analysts attempting to understand inflation in China, however, are severely hampered by the lack of real data on price increases. There is no common basket of goods that have been evaluated over time, he said. Meat prices have risen by 50 percent in the past year and non-meat prices have been growing at 5 percent year on year since 2002. Salaries in Shanghai have more than kept pace with inflation, he said, since wages have averaged 15 percent per year growth over the past 10 years. This means that the majority of urban residents "are really a lot better off." Nevertheless, low-income urban households such as pensioners and newly-arrived migrants have not seen the same real wage increases. Since these groups spend more than 35 percent of their income on food, "inflation is starting to hurt them," he

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said.

¶7. (SBU) CLSA China Macro Strategist Andy Rothman, in a separate meeting on August 22, observed that restaurants in Shanghai have raised prices for meat dishes and international fast food chains such as McDonalds and KFC have "quietly" raised some meal prices by 10 percent.

¶8. (SBU) Despite these increases, Rothman opined that "there has been a great deal of over-hyping the food inflation story." His research indicates that despite increases in food prices, non-food related CPI only rose by about 1 percent in the first half of 2007. Food price increases have not affected the average urban resident and he did not foresee any change in the near future.

Government Raises Minimum Wage and Increases Pensions

¶9. (SBU) Shanghai Social Security and Labor (SSLB) Bureau Policy and Regulation Section Chief Dai Jianping told Econ Assistant on August 31, that the SSLB was planning on raising Shanghai's minimum wage from RMB 750 (USD 99) to RMB 840 (USD 111) on September 1. Dai said that this 12 percent increase was due to a number of factors including inflation. Dai said Shanghai has been adjusting its minimum wage yearly since it was established in the 1990s.

¶10. (SBU) Dai said that the SSLB would raise retirees' pensions on September 1, as well. Retired government workers would see a monthly increase of RMB 55 (USD 7.29) and retired state-owned enterprise workers pensions' would rise by RMB 100 (USD 13.26) per month. The difference in pension-hikes between the retired bureaucrats and workers was based on a recent central government

notice to close the very large pension gap between the two groups. The current average bureaucrat-worker pension gap in Shanghai is RMB 1000 (USD 132) per month.

Price Hikes Hit Home: Canteen Prices Up 43 Percent

¶11. (U) The Consulate canteen recently raised the price of its lunch service from 7 RMB to 10 RMB (USD 0.93 to USD 1.33). This price includes a green vegetable, a tofu-based side, a serving of meat, and a bowl of rice. According to the canteen cook, over the past year, the price of meat has increased around 30-40 percent, egg prices have increased around 10 percent, and the prices of vegetables, fish and poultry have increased 5-10 percent.

Migrants and Pensioners Hit Hardest

¶12. (SBU) Comment: Statistics alone, especially those published in China, often tell less than half of the story. In an attempt to gauge the impact of food price inflation in Shanghai, we spoke with a number of individuals. Some of their situations are reported below. Shanghai is one of China's wealthiest cities and, as Andy Rothman stated above, inflation does not seem to be affecting the "average" urban dweller. But Shanghai is home to an estimated six million migrant workers. Surviving on marginal wages, and needing to pay rent for shelter, while sending money back to the countryside, inflation is felt strongest by the migrants on whose manual labor Shanghai's prosperity rests. Shanghai's growing retired population who depend on pensions are also hit hard by increased food prices. End comment.

Migrant Workers

¶13. (U) A married couple in their 30's from Anhui Province has lived in Shanghai for about five years. They have one child,

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who lives in Anhui Province with his grandparents. They hope that next year he will be able to move to Shanghai to attend a school that accepts the children of migrant workers (Ref B). Their combined monthly income is USD 464. (Note: All figures originally in RMB were converted to USD at the late August 2007 value of USD 1 = RMB 7.54. End note.) They pay USD 66 in rent and an additional USD 66 in utilities and cooking gas. They complained about the increased food prices and have coped by decreasing their meat consumption.

¶14. (U) A married migrant worker in her 30s from Anhui Province has been living apart from her husband and son for the past seven years. Her son is 18 and about to start college. She attributes his success at passing the college entrance exam to her ability to support tutors and other tuition fees. She makes USD 305 per month plus an extra month's salary at Chinese New Years. She and a room mate pay USD 33 apiece per month for a shared single room with a sink and a toilet. They share cooking facilities with other tenants in the building. Food costs her USD 40 per month for what she describes as the "lowest quality food." Increased food prices mean that she is eating almost no meat and more rice.

Pensioners

¶15. (U) A retired married Shanghai couple in their 70s who own their residence have a total monthly income of USD 425. This does not include any cash from their children. They spend about USD 200 per month on food and an additional USD 66 on utilities. They both are in good health and "spend very little on medical

expenses." The couple agreed that they were little affected or worried by inflation.

Blue Collar Workers

¶16. (U) A Shanghai-native janitor in a Western office building earns USD 397 per month and has a combined family income of USD 663 per month. They own their apartment. This three-person family spends about USD 265 on their monthly food bill. She and her husband have a high school-aged son and pay USD 640 per year in tuition. She said that higher food prices did not affect their standard of living.

¶17. (U) A Shanghai-native clerk at a convenience store in her early-20s earns Shanghai's minimum wage of USD 105 per month. She is married to another Shanghai native and lives at his parents' home. In addition to not charging for rent, his parents also pay for their food. As such, food inflation had not affected her, but she noted that her migrant colleagues who had to pay for their own food and rent on the same salary as her were very affected by the increased costs.

¶18. (U) A cab driver in his late 50s earns USD 475 per month. He was very angry about increased food prices since he and his wife spend more than 80 percent of his income on food and utilities. As a result of increased meat prices, his family has cut back on pork consumption -- only using a little bit "for flavor."

White Collar

¶19. (U) A single Shanghai-native white collar worker in her mid-twenties earns about USD 600 per month. She lives at home with her parents who, with her salary, have a combined monthly income of USD 1325. Their home is owned and paid for. She helps to pay for the monthly USD 265 food and utilities bill. Increases in food prices had not affected her family's eating habits, but she noted that increased clothes prices had led her to buy fewer clothes.

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